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REPORT

TO THE

COMMITTEE ON THE BUDGET

FROM THE

COMMITTEE ON VETERANS' AFFAIRS

SUBMITTED PURSUANT TO SECTION 301 OF THE CONGRESSIONAL BUDGET ACT OF 1974

ON THE

BUDGET PROPOSED FOR FISCAL YEAR 2005

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LETTER OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, DC, February 26, 2004

Hon. JIM NUSSLE,
Chairman, Committee on the Budget
House of Representatives, Washington, DC

DEAR MR. CHAIRMAN: We are pleased to convey with this letter the views and estimates of the Committee on Veterans' Affairs regarding the fiscal year 2005 budget for veterans' health care and benefits.

On February 4, 2004, the Committee held a hearing to receive the testimony of the Secretary of Veterans Affairs and veterans service organizations on the proposed budget for veterans programs. The Committee also heard testimony from the authors of the *Independent Budget* proposed by the Veterans of Foreign Wars, Disabled American Veterans, AMVETS, and Paralyzed Veterans of America. The Secretary presented the Administration's fiscal year 2005 budget request for a total of $67.324 billion, an increase of $5.27 billion in budget authority. Entitlement programs would receive $35.3 billion and discretionary programs would receive $32.1 billion. The overall increase in discretionary funds would be $517 million.

Congress should provide VA with sufficient funding to maintain current levels of service for veterans health and benefits programs. After carefully considering the VA's budget submission, the *Independent Budget* submission, and the testimony presented at the budget hearing, we have concluded that an additional $2.524 billion in budget authority for VA's discretionary programs would be needed to ensure a current services budget. In the Committee's view, this increase would allow the Department to continue during fiscal year 2005 to provide the level of benefits and services veterans are now receiving.

The budget requested by the Administration for veterans medical care is $29.1 billion in total resources. Of this amount, $26.646 billion would come from appropriated funds, an increase of $708 million over the adjusted appropriated level for the current fiscal year. The balance of the request for medical care consists of an estimated $2.4 billion in collections, an increase of $667 million over the fiscal year 2004 projection.

The Administration also proposes a $250 annual enrollment fee for priority 7 and 8 veterans seeking VA medical care, and an increase in drug and primary care copayments. Similar user fees were rejected by Congress last year, and the Committee again rec-

ommends against their adoption. VA's ability to provide long-term care would be severely impaired by another Administration proposal, also made last year, to close about 5,000 of its estimated 12,000 nursing home beds. Given the expected number of elderly veterans from World War II and the Korean War who are expected to seek nursing home care over the next ten years, these proposals are illogical and indefensible.

Last year, the Committee favorably considered an Administration legislative proposal to provide VA with additional health care resources. Acting on the proposal, the Committee reported H.R. 1562, a measure that would increase VA medical care collections by holding insurers responsible for the cost of covered care provided by VA. The Congressional Budget Office estimated that this authority would boost collections by almost $800 million over five years. However, our efforts to have the House consider this measure have been rebuffed.

For entitlement benefits, the Administration proposes $35.3 billion in funding to support programs for veterans compensation and survivors benefits, pensions, education, vocational rehabilitation and employment, housing, insurance and burial programs. However, the budget request would decrease total Veterans Benefits Administration (VBA) staffing by 540 FTEE. The Committee recommends an additional $32 million in budget authority to maintain current levels of such staffing in order to continue needed performance improvements in disability claims processing and other entitlement programs. The Committee also recommends an additional $17.5 million to support initiatives to improve claims processing.

The Administration also requests $161 million for fiscal year 2005 to operate 125 National Cemeteries, and $180.9 million in mandatory spending for veterans burial benefits. The Administration requests $113 million to develop new national cemeteries, expand existing cemeteries and provide grants for state cemeteries. The Committee believes these requests are adequate. However, the Administration did not request funding for 928 previously identified cemetery restoration and repair projects that are badly needed to restore older cemeteries as national shrines. Most of these cemeteries are closed to new interments and are in a decrepit state. Therefore, we are recommending $50 million for fiscal year 2005, for the first year of a five-year, $300 million national cemetery restoration and improvement project.

The Committee's top legislative priority is a measure to create jobs and economic opportunity for those who have performed military service. Congress has not comprehensively updated the on-the-job training and apprenticeship programs under the Montgomery GI Bill and other VA educational assistance programs since World War II. "Earning and learning" on the job in these programs is also an excellent transition tool for returning servicemembers. A modernized statute reflecting the nature of structured training in today's workplace would improve access to these programs for recently-separated veterans by giving employers greater incentives to participate. The Committee recommends funding of $1.78 billion over 10 years to create new jobs and economic opportunities for veterans.

The Committee believes that the increases it recommends in the accompanying views and estimates for fiscal year 2005 are necessary to maintain current services for veterans programs. Members of the Committee may submit additional views under separate cover. We thank the Committee on the Budget for its consideration of our recommendations and look forward to continued discussion on these important issues.

Sincerely,

CHRISTOPHER H. SMITH,
Chairman

LANE EVANS,
Ranking Democratic Member

BACKGROUND AND COMMITTEE RECOMMENDATIONS

DEPARTMENT OF VETERANS AFFAIRS

VETERANS HEALTH ADMINISTRATION

The Status of VA Health Care.—Veterans have sought health care from the Department of Veterans Affairs (VA) in increasingly greater numbers over the past ten years as the VA evolved from a system that primarily focused on inpatient care to a primary care model. The increased capacity and availability of VA health care resulted from the opening of hundreds of new VA community-based outpatient clinics. VA's accessible and affordable pharmacy benefit also encouraged veterans to seek care.

The Department cared for 4.7 million unique veteran patients in fiscal year 2002, 5 million in fiscal year 2003, and expects to treat 5.2 million veterans in fiscal year 2004. Approximately 2.4 million additional veterans will be enrolled in VA health care in fiscal year 2005 but will not actually use the health benefit. To respond to this growth, Congress has increased VA medical care funding by 22 percent over the past two years and 50 percent over the past five years, an average of 10 percent per year. In the current fiscal year, the Consolidated Appropriations Act of 2004, Public Law 108–199, provides $25.9 billion in appropriations for veterans' medical care (the funding level available for medical care assumes a transfer of $400 million to medical construction). This constitutes an increase of $2 billion or 9 percent over the previous fiscal year. In fiscal year 2003, Congress provided an increase of $2.6 billion or 12 percent for veterans' care.

For fiscal year 2005, the Administration requests $26.6 billion in appropriations for VA health care programs (not including construction, national management, or grant programs) an increase of $708 million or 2.7 percent over the fiscal 2004 appropriated level.

The Administration's budget proposes that Congress require veterans with no service-connected disabilities (priority 7 and priority 8 veterans) to pay a new annual enrollment fee of $250, as well as higher pharmaceutical co-payments ($15 for each 30-day prescription) and higher primary care appointment co-payments (from $15 to $20 for each appointment). The enrollment fee increase and the higher pharmaceutical co-payments were proposed in previous budgets but were not approved by Congress.

The Committee remains concerned about the growth in enrollment and VA's inability to respond to the needs of some patients once enrolled. Eighteen months ago, 310,000 enrolled veterans had to wait six months or more to see a VA physician, including some veterans who received no appointment at all. Today, VA is reporting that number has been reduced to about 36,000. Following recommendations from the Members of this Committee, VA imple-

mented a temporary program in late 2003 designed to allow veterans who requested an initial appointment with a physician and who were still waiting longer than 30 days for that appointment to receive VA pharmacy services for prescriptions written by private physicians. More recently, the Secretary altered waiting policy by requiring facilities to schedule service-connected veterans for appointments within 30 days. The Committee will continue to monitor the effect of this change on waiting times and VA expenditures.

On January 17, 2003, the Secretary of Veterans Affairs suspended further enrollment of Priority 8 veterans (nonservice-connected veterans with incomes above a regionally adjusted means test). The announced purpose for this action was to ensure that VA was capable of caring for veterans with military-related disabilities, lower incomes and those in need of specialized care. The Secretary also announced a program in partnership with the federal Centers for Medicare and Medicaid Services (CMS) for VA to subcontract with Medicare+Choice Organizations (M+CO) under the Medicare Part C program. Projected to begin in late 2004, a small number of Medicare-eligible Priority 8 veterans now excluded from direct enrollment in VA health care would be offered the option of receiving their Medicare benefits from VA facilities designated as Medicare provider organizations.

Overall US Health Care Spending Growth.—Health care spending slowed in 2003, but is still expected to rise at an annual rate of 7.8 percent in 2004, about 3.5 percentage points higher than general inflation, according to a report issued February 11, 2004 by CMS. Prescription drugs continue to be the fastest-growing segment of health spending. For the VA's health care system, spending on prescription drugs was 13.4 percent of VA health expenditures in 2003. In fiscal year 2004, VA expects to spend about $3.7 billion on pharmaceutical products and anticipates spending $3.9 billion in fiscal year 2005, a 5 percent increase. The projected increase stems from both higher utilization of VA health care by veterans and increased use of new drugs to deal with the chronic health problems of enrolled veterans.

Health Care Inflation.—The Bureau of Labor Statistics (BLS) has released inflation data for 2003 that shows that the overall medical care inflation rate for calendar year 2003 was 4 percent, almost double the domestic "All Items" inflation rate. Hospital care and related services grew faster than other components of health inflation, at 7.3 percent.

Capacity and Demand for Long-Term Care Services.—The veteran population most in need of nursing home care, veterans 85 years or older, grew from about 387,000 in fiscal year 1998 to about 640,000 in fiscal year 2002 and to about 870,000 during fiscal year 2003, amounting to more than a 100 percent increase over the past seven years. Over the next decade, this veteran population segment is expected to continue to rise to about 1.3 million. In 1997, VA established a Long-Term Care Federal Advisory Committee to recommend how VA should respond to this growing demand. The Committee was chaired by Dr. John Rowe, then President of Mount Sinai University and School of Medicine and a former VA geriatrician. Dr. Rowe and the panel of experts on the Advisory Committee

issued a report in 1998 entitled *VA Long-Term Care at the Crossroads*. The Committee offered 20 recommendations to guide the provision of VA long-term care services through 2010.

In the *Crossroads* report, the Advisory Committee concluded that "[d]espite high quality and continued need, long-term care is perceived to be an adjunct entity, unevenly funded and undervalued. Continued neglect of the long-term care system will lead to further marginalization and disintegration, and have costly, unintended consequences throughout the VA health care system." The Advisory Committee stressed the need for nursing home capacity to remain at the 1998 bed level and for VA to significantly expand home and community-based service capacity to meet the anticipated growth in demand by a large oncoming wave of aging veterans.

On November 30, 1999, Congress ratified many of the recommendations of this Advisory Committee with enactment of the Veterans' Millennium Health Care and Benefits Act (the Millennium Act), Public Law 106–117. Under this Act, VA is required to provide a comprehensive menu of extended care programs, including geriatric evaluation, community nursing home, domiciliary, adult day health, respite and other alternatives to institutional care, including palliative and hospice programs. VA is mandated to provide needed nursing home care to veterans who are either 70 percent service-connected or in need of such care for a service-connected condition, and is required to provide such care to other veterans to the extent VA has resources to do so. The Millennium Act also requires VA to give priority to veterans with unique needs (such as Alzheimer's) and for those without other placement options. It also requires VA to maintain the level of "in-house" extended care services and expand community-based long-term care programs, supported in part by increased copayments for long-term care services for nonservice-connected veterans.

In November 2002, the Committee Chairman requested the General Accounting Office (GAO) to analyze current trends and forecasts in veterans' nursing home utilization and VA's long-term care expenditures. GAO testified before the Committee on January 29, 2004, questioning whether any real growth had occurred in VA's non-institutional care programs since enactment of the Millennium Act. Also, the VA Inspector General reported on December 13, 2003, on VA's homemaker and home health aide program (Report No. 02–00124–48, *Healthcare Inspection: Evaluation of Veterans Health Administration Homemaker and Home Health Aide Program).* Both reviews showed that VA's official policies had expired or that program managers were not complying with Veterans Health Administration (VHA) policies, and that there were no extant guidelines for contracting for services or for rates to be paid for services. Both reports observed significant differences between networks in long-term care services provided and the types of patients being served.

Although VHA's overall long-term care services have expanded to some extent in recent years, VA's commitment to long-term care has not kept pace with veterans' needs. According to GAO, access to VA care remains markedly variable from network to network. VA's average daily nursing home census was 33,214 in fiscal year 2003, one percent below its fiscal year 1998 workload. All of the

program growth reported by GAO was in the state home program and most of the shrinkage was in VA's in-house capacity. Also, according to a November 11, 2003, VA report, entitled *VA Extended Care: Final Report to Congress of VA's Experience Under the Millennium Act*, VA itself reported that it has not maintained the required level of in-house nursing home care.

The Committee firmly rejects the Department's proposal to close 5,000 additional VA nursing home beds. Congress rejected a similar proposal last year. Outpatient programs cannot replace the nursing home beds that chronically ill veterans need. In order to maintain the required bed level, the Committee recommends that VA's budget request be augmented by $370 million. VA should also reopen the nursing home beds that have been closed since passage of the Millennium Act.

Medical Care Collections Fund.—VA is authorized to bill some veterans and most health care insurers for nonservice-connected care provided to veterans enrolled in VA health care. It retains this collection in the Medical Care Collections Fund (MCCF) to defray costs of delivering VA medical services. The Department projects that if its proposed fee increases are adopted, medical care collections for fiscal year 2005 will be $2.4 billion.

The Committee supports the Department's efforts to improve performance in first and third party collections, but the Committee remains skeptical that VA can achieve all of its collections goals in fiscal year 2005. Much of the 38 percent increase ($403 million) projected for fiscal year 2005 is expected to come from new enrollment fees and increases in copayments for pharmaceuticals and primary care for certain veterans. Congress rejected these same proposals last year. Another $300 million is projected to come from improving collection methodologies. While VA might be successful in increasing collections, past projections have proven to be overly optimistic. The Committee believes a 10 percent increase in collections, based on the fiscal year 2004 estimate of $1.75 billion in total collections, is a realistic goal. The Committee estimates that this would reduce VA's need for new appropriations in fiscal year 2005 by $175 million.

Management Improvements and Efficiencies.—The Department's 2005 budget proposes to achieve an additional $340 million from "management savings." VA testified that it plans to achieve these savings through improved standardization in the procurement of supplies, pharmaceuticals and other capital purchases, and by implementing a competitive out-sourcing plan, increasing health resources sharing with the Department of Defense (DOD), and continuing the trend of shifting patients from inpatient to outpatient levels of care. The budget also assumes that VA will continue to achieve the $950 million "management efficiencies and improvements" programmed into the fiscal year 2004 budget. Management efficiencies, improvements and savings are laudable goals and some have indeed been achieved. However, based on prior experience, the Committee is not confident that optimistic plans and goals would produce the high-dollar reductions in costs the Administration projects in its budget request.

On September 2, 2003, the Committee reported to the Committee on the Budget (House Committee Print No. 4, 108th Congress, 1st Session) on its review of efforts to eliminate waste, fraud and abuse in veterans' programs. The Committee invites close attention to this report as an indication of efforts within VA, its Inspector General's Office (OIG) and at GAO, to ferret out such conditions and improve VA programs, within the health care system. As evidenced by hearings before this Committee and other committees in the first session of the 108th Congress, Congress and the Administration together should work aggressively to eliminate waste, fraud, abuse, and mismanagement in VA programs. As this Committee continues to examine VA funding needs, it will continue its efforts to reduce waste and inefficiencies in these programs.

Enhanced Mental Health Services.—1. Peer Support Program and Education: On April 29, 2002, President Bush established the New Freedom Commission on Mental Health "to conduct a comprehensive study of the United States mental health service delivery system, including public and private sector providers, and to advise the President on methods of improving the system." This Commission recently reported to the President. VA, which participated in the Commission as an *ex-officio* member, has established an action agenda to implement its recommendations.

One recommendation of the Commission proposed "peer support networks" to align relevant Federal programs and to improve access and accountability for mental health services. Peer support programs have proven to be cost-effective and successful models for assisting veterans and others with mental illnesses. The Committee believes that VA should hire peer counselors to develop a training protocol and certification program. The Committee recommends $5 million to initiate this program.

2. Mental Health Intensive Case Management: Mental Health Intensive Case Management (MHICM) programs are characterized as an intensive, multidisciplinary team approach to managing highly dysfunctional mentally ill veterans in the community. VA has estimated as much as 20 percent of its seriously mentally ill veteran population may be in need of such services. VA issued an internal directive more than three years ago to ensure that each of its networks establishes strategies to provide severely mentally ill veterans with appropriate access to mental health services. Recent reports from VA indicate that some MHICM's were initiated in the last year, more than two years after the directive was issued. Others have reduced or held steady the number of veterans they treat. Medical literature has shown the MHICM program to be a cost-effective means of managing mentally ill people. The Committee recommends VA continue to implement MHICM teams to treat veterans in the target population. VA's Committee on Care of Veterans with Serious Mental Illness has estimated that the cost to fully implement this program would be an additional $32 million.

Enhancing VA Services along the VA Continuum of Care.—The same VA advisory committee on mental illnesses has identified a number of shortfalls in programs that aid veterans with mental health disorders. The cost to meet the full demand by veterans for

mental health services in fiscal year 2004 would require double the amount obligated in fiscal year 2002 for these programs. However, in order to achieve realistic and feasible program growth, the Committee recommends an increase in the program funding by $55 million.

Readjustment Counseling Services to Address the Needs of Veterans Returning from Iraq and Afghanistan.—Almost 287,000 American servicemen and women serve or have served in Operation Enduring Freedom and Operation Iraqi Freedom. DOD reports that it has cared for more than 9,000 casualties since these deployments were authorized. Many of them have physical wounds; others have mental health problems stemming from the stressful conditions of combat. Patients with diagnoses of chronic Post Traumatic Stress Disorder (PTSD) may require long-term courses of treatment and often consume other types of health care services at higher rates than average.

VA recently developed clinical guidelines in collaboration with DOD to diagnose PTSD in its earliest stages to prevent chronic and severe cases from developing. VA is now developing plans to screen servicemembers who have returned from a recent deployment. This outreach is intended to ensure that veterans who are likely to have problems are identified and are offered early intervention to address their problems.

Strong family support is integral to the recovery of individuals with mental health disorders. Congress has authorized VA to offer care to family members when it is incidental to the treatment of the veteran or when a veteran has died of service-connected conditions. The Committee believes VA should take immediate steps to enhance the resources available to its current readjustment counseling centers ("Vet Centers") to ensure that the program is adequately prepared to address the needs of returning troops and their immediate family members. To augment the existing care sites and add family therapists at 50 of its sites that may experience the greatest increase in demand due to demobilization, would require an $8 million investment for approximately 100 new full-time employees.

In sum, the Committee recommends augmentation of the medical care budget by $100 million to account for these heightened requirements from wartime deployments and for programs that have not been adequately recognized as priorities for veterans in need of mental health services.

Homelessness Among Veterans.—With the passage of the Homeless Veterans Comprehensive Assistance Act of 2001, Public Law 107–95, Congress established the goal of ending chronic homelessness in the veteran population within a decade. VA is not making sufficient progress in achieving this objective, as evidenced by the slow pace of developing regulations and policies to carry out several of these initiatives. In the case of the authorization to expand VA domiciliaries, VA has effectively prevented implementation of this authority, despite its proven effectiveness. Other programs, including VA's grant and per diem program for community providers, and the so-called "Health Care for Homeless Vets" initiative, should be funded at higher levels if the goal is to be met. The Committee rec-

ommends that, consistent with the recommendations of the Administration, $15 million be added to the VA's budget to address the still unmet needs of an estimated one-quarter million homeless veterans. This will allow VA to increase funding available to the homeless grant and per diem providers, who, in turn, can assist thousands of veterans in returning to productive activity.

Medical and Prosthetic Research.—The Department carries out an extensive array of research and development as a complement to its affiliations with medical and allied health professional schools and colleges nationwide. While these programs are specifically targeted to the needs of veterans, VA research has defined new standards of care that benefit all Americans. Among the major emphases of the program are aging, chronic diseases, mental illnesses, substance-use disorders, sensory losses, and trauma-related illnesses. VA's research programs are internationally recognized and have made important contributions in virtually every arena of medicine, health, and health systems.

The Administration has requested a 2005 budget for VA Medical and Prosthetic Research of $385 million, a decrease of $21 million below the fiscal year 2004 appropriations level. The Committee strongly supports an increase in the research account to $415 million. The Committee believes this additional funding is needed to keep pace with funding trends in the Federal biomedical research community. The Committee places a high premium on VA's research focus in chronic diseases afflicting aging populations. The National Institutes of Health received an increase of 3.7 percent in the 2004 omnibus appropriations act. An equivalent increase in VA research for 2005 would be $427 million. Additional funding of $30 million in VA biomedical research in fiscal year 2005, coupled with a $30 million increase in medical care funds to support these activities, would provide for inflation and permit a small expansion in VA research programs.

Bio-Terrorism Research Centers.—The Department of Veterans Affairs Emergency Preparedness Act of 2002, Public Law 107–287, requires the Department to establish four national emergency preparedness centers, and authorizes $20 million per year for the support of those centers. A dispute over the funding for these centers has prevented their establishment. These centers are vital to VA's ability to care for veterans who may be exposed to weapons of mass destruction on the battlefield, as well as to provide assistance to the Departments of Homeland Security, Defense and others in the federal and state communities in contending with the health care challenges of the war on terrorism. The Committee believes that the Department should set aside $10 million from the amount the Committee recommends for medical care to support the establishment of four national medical preparedness research centers within existing VA medical centers in fiscal year 2005.

The Act also authorizes the establishment of an education program to be carried out through VA. The education and training curriculum would include a program to teach current and future health care professionals how to diagnose and treat casualties who have been exposed to chemical, biological, or radiological agents. The Committee believes that the Department should set aside $5

million from the amount the Committee recommends for medical care to support the requirement in fiscal year 2005.

Major Medical Construction Projects and CARES.—The physical infrastructure of the VA health care system is one of the largest in the federal government, with over 4,700 buildings and thousands of acres valued at over $35 billion. Much of this infrastructure was built over 50 years ago. These aging facilities are in need of repair and restoration to ensure that veterans are provided care in safe, reliable and functional settings. In recent years, VA's investment in its health care infrastructure has been minimal compared to expected levels of investments in such capital facilities. At the same time, GAO has reported to Congress that VA is "wasting" $1 million per day on unnecessary buildings and empty spaces. As described above, VA has moved from a hospital-based health care system to a primary care delivery model. Accordingly, VA is completing its Capital Asset Realignment for Enhanced Services (CARES) initiative. The independent CARES Commission, chaired by Honorable Everett Alvarez, Jr., issued its report to the Secretary of Veterans Affairs and Congress on February 13, 2004. A major issue of concern to the Committee is that the draft plan omits veterans' long-term care, domiciliary care and outpatient mental health care, claiming that workload forecasts in these programs were inaccurate or unrealistic. This critical omission may call into question the validity of many CARES recommendations.

The CARES Commission report confirms the need for at least $4 billion in capital improvements over the next decade. The CARES Commission agreed with VA's plan to build two new medical centers, in Denver, CO, and Orlando, FL. It also recommended a priority feasibility study for a new consolidated Medical Center in Boston, MA, to replace four existing VA centers. The Commission encouraged VA to continue its collaboration with the Mike O'Callaghan Federal Hospital in Las Vegas, NV, and also endorsed VA's proposals to further study the need for new facilities in the Las Vegas area, as well as in Louisville, KY, and in Charleston, SC. In testimony before the Committee on February 4, 2004, Secretary Principi stated his intention to proceed with CARES as a high priority. He identified $1.3 billion in funds available to begin major capital projects in the next two fiscal years. Assuming that the Secretary does not completely reject the recommendations of the Commission, the Committee will carefully review the CARES report and VA's prioritized list of capital improvement projects over the next several months.

State Home Grants Program.—In 47 states and Puerto Rico, there are 117 facilities for veterans that provide nursing (21,000 beds), domiciliary (6,066 beds), and adult day care (one small program) whose care is coordinated with VA. The current VA reimbursements for each day of care a veteran receives in a state home are: $57.78 for nursing home care, $27.19 for domiciliary care, and $42.57 for adult day health care.

States pay 35 percent of the construction costs of projects for state home facilities, and bear most of the cost of the facilities' operations and health care that exceed amounts contributed by VA. Applications totaling $359.7 million for new construction and ren-

ovation grants to state veterans' homes are pending in the Department. A new round of requests will be solicited in April 2004 for fiscal year 2005 awards.

In 1999, the Millennium Act reformed the state home construction grant program. It provided a higher priority for critically needed renovations in existing state homes, especially those projects involving fire and life safety improvements. Prior to enactment, these long-delayed projects were given a lower priority for funding than grants for constructing new state home beds. In fiscal year 2004, for the first time since the implementation of these provisions affecting the ranking criteria for funding, the backlogged renovation projects with state matching grants are eligible for funding.

The Administration budget proposal for fiscal year 2005 requests $105,163,000 to support the grant program, a 3.6 percent increase over the fiscal year 2004 appropriated level. The Committee supports VA funding as many projects as possible for which states have certified their matching funds to be available. These projects will respond to the growing demand for new long-term care facilities, and will aid states in modernizing facilities in existing inventories.

Current Services for Veterans Health Care.—VA's estimate of cost savings in this proposed budget does not consider the increased costs that Medicare, TRICARE, and other federally-subsidized health care programs would incur for veterans who would be disenrolled from VA care as a result of proposals such as a $250 health care copayment and an increased prescription drug copayment. When the Congressional Budget Office and the Office of Management and Budget estimated the cost of the recently-enacted Medicare prescription drug benefit, they reduced the projected costs of that benefit by the $3 billion that VA spends annually to provide prescription drugs to veterans using VA care. Similarly, the Administration and Congress reduced the estimated cost of VA health care by $250 million annually following the enactment of TRICARE for Life in 2000. Veterans' use of VA care also reduces the cost of care in the Indian Health Service and in Medicaid.

Rather than supporting Administration proposals that could reduce demand for VA health care and shift costs to other parts of the federal medical system, the Committee recommends treating spending on veterans programs the same as spending on Social Security and Medicare. To do so, a "current services" budget for VA medical care would require an increase of approximately nine percent over the appropriated fiscal year 2004 level. A current services approach allows continued enrollment for those veterans enrolled today in VA health care.

VETERANS BENEFITS ADMINISTRATION

Veterans Benefits Administration.—The Administration requests $35.2 billion to support the entitlement benefits program, an increase of $2.5 billion over the appropriated level for fiscal year 2004, as well as another $1.464 billion for managing the programs for disability compensation, pension, education, vocational rehabilitation and employment, housing, life insurance, and burial. Over 3.3 million veterans, survivors and dependents were receiving com-

pensation or pension benefits at the beginning of fiscal year 2003. An additional 681,000 beneficiaries received education or vocational rehabilitation benefits.

The ability of VA to provide accurate, timely and quality benefits delivery is dependent on a number of factors. These include an adequate number of properly trained staff, effective business process and information technology modernization initiatives, accountability measures, inter-departmental cooperation between the various VA administrations and military service departments, including the National Personnel Records Center and DOD's Center for Unit Records Research, and assistance from the veterans service organizations. The Administration requests $29.4 million to support new and on-going initiatives designed to provide better customer service through improved accuracy and access for benefits. The Committee recommends an additional $17.5 million to support added initiatives to include Virtual VA (paperless claims processing), Data Quality Assurance, the One VA telephone system, computer training programs, and contract medical examinations.

Disability Compensation.—The Administration requests $29.3 billion to support compensation benefits to disabled veterans, certain survivors, and eligible dependent children, and $657.6 million to fund the discretionary portion of the Disability Compensation program, which will provide funding for the administrative expenses of 7,057 FTEE, a decrease of 35 FTEE from fiscal year 2004.

VBA is making every effort to increase quality and productivity in the current adjudicative and appellate processes for veterans. The Department has continued to make reducing the pending workload of veterans' claims and attendant quality in such claims top priorities. VBA decreased its average days to process a rating claim from 223 days in 2002 to 182 days in 2003. By the end of 2004, VBA expects to be processing these claims in 145 days, and by the end of 2005 expects them to be processed in 100 days. While significant progress has been made, VBA did not meet the Secretary's goal of processing claims within 100 days by the end of 2003. "Reopened" claims, those in which a request for reconsideration of a previous denial is made, continue to outnumber original claims by about three to one. The accuracy rate for core rating work in claims decisions continued to improve, increasing from 81 percent in 2002 to 86 percent in 2003.

The Committee notes VBA's efforts to meet its timeliness goals through restructuring at its regional offices and redesigning workflow, strengthening its partnership with DOD and the U.S. Armed Services Center for Unit Records Research, and developing a joint VBA/VHA/DOD examination protocol for servicemembers leaving active duty. At the end of fiscal year 2003, VBA's pending claims inventory was 253,000, a 41.4 percent reduction in pending claims from a peak of more than 432,000 in January 2002. However, as of early February 2004, 336,721 claims were pending. This significant change in VBA's inventory was the result of a September 22, 2003, decision by the U.S. Court of Appeals for the Federal Circuit, *Paralyzed Veterans of Am.* v. *Sec'y of Veterans Affairs*, 345 F.3d 1334 (Fed. Cir. 2003), which held that denial of a claim is premature before the expiration of the one-year period established by

the Veterans Claims Assistance Act of 2000 (VCAA), Public Law 106–475, even if VA has reviewed all available evidence. The VCAA requires VA to allow a claimant one year to submit requested information or evidence to substantiate a claim.

The Veterans Benefits Act of 2003, Public Law 108–183, signed on December 16, 2003, changed the result of the Court's decision. Veterans no longer have to wait until the expiration of the one-year period to receive a decision on their claim. VBA has begun the process of issuing decisions on the approximately 60,000 cases deferred over the last three months due to the Court's ruling.

Due to these workload considerations, the Committee rejects the proposed decrease of 35 FTEE and recommends $2 million to maintain current staffing levels.

Pension Program.—The Administration requests $3.2 billion to support the pension program, and $139.4 million to fund the discretionary portion of the pension program, which will provide funding for the administrative expenses of 1,444 FTEE, a decrease of 255 FTEE from fiscal year 2004, despite a caseload increase of 8,024.

The average number of days to process pension claims has decreased only slightly from 112 in 2000 to 98 in 2004, and the overall customer satisfaction rate with the pension program has remained static at 65 percent. The Committee rejects the proposed decrease of 255 FTEE and recommends $15 million to maintain current staffing levels.

Education Service.—The Administration requests 888 FTEE for the Education Service, a decrease of 38 FTEE over fiscal year 2004, although participation in VA's education programs is projected to increase by about 29,000.

The Committee observes no significant improvement in the quality of education claims processing from 2002 to 2003; some indicators are better and some are worse than the previous year. Moreover, from 2001 to 2003, overall payment accuracy improved only slightly from 92.0 percent to 93.5 percent.

An additional priority for the Committee is the further development of apprenticeship and other on-job training programs for veterans. Sufficient resources and personnel must be allotted to the processing, review and evaluation of federal job training programs so that decisions are made accurately and expeditiously. The Committee rejects the proposed decrease of 38 FTEE and recommends $2 million to maintain current staffing levels.

Vocational Rehabilitation and Employment Service.—Disability compensation can help offset a veteran's average loss of earning power, but long-term sustained employment and economic independence represent the aspirations of most disabled veterans, according to VA's comprehensive 2001 National Survey of Veterans.

VA's *Annual Accountability Report for FY 2000* showed the rehabilitation rate of disabled veterans for the year was 65 percent, which appeared to exceed the goal of 60 percent. However, VA's Inspector General concluded in its February 6, 2003, report titled *Accuracy of VA Data Used to Compute the Rehabilitation Rate for Fiscal Year 2000* (Report No. 01–01613–52), the data VA used to compute the rehabilitation rate was not accurate. In numerous cases, VA classified disabled veterans as rehabilitated when they were

not rehabilitated. The Committee expects improvements in the integrity of these data.

The Administration requests 1,015 FTEE for the Vocational Rehabilitation and Employment program in fiscal year 2005, a decrease of 103 over the fiscal year 2004. The Committee rejects the proposed decrease of 103 FTEE and recommends $7 million to maintain current staffing levels in order to allow the program an opportunity to improve its performance.

Loan Guaranty Service.—In fiscal year 2003, this program guaranteed 489,418 loans, the second highest amount since 1970. The loans were valued at $63,254,794, with an average of $129,245. In general, VA's home loan program is one of its most popular with veterans and servicemembers. VA's 2001 National Survey of Veterans notes that about 60 percent of the 20,000 veterans surveyed reported they had used VA's home loan program to purchase, improve or refinance their home. On average, 93.2 percent of veterans have indicated satisfaction with VA's home loan assistance over the past five fiscal years. The Committee commends these results.

Average FTEE in this program has already been reduced through careful administrative consolidation from 2,108 in fiscal year 1999 to 1,390 in fiscal year 2004 without any degradation in quality or cost-effectiveness. However, the Administration requests a further reduction of 109 FTEE. The Committee rejects the proposed decrease of 109 FTEE and recommends $6 million to maintain current staffing levels in order to maintain program performance.

The Committee is also concerned about a proposal contained in the budget request to change the eligibility of the home loan program to one-time use for veterans (active duty servicemembers would continue to be able to use the benefits as many times as needed). Such a change in program entitlement for veterans is estimated by the Administration to cost $91 million. The Committee rejects this proposal and recommends no change to current law in this regard.

VBA Staffing for all Business Lines.—VBA has an administration-wide hiring freeze, effective May 8, 2003. Additional hiring in early fiscal year 2003 of 150 new Rating Veterans Service Representatives and 150 new Veterans Service Representatives, along with Congressionally-mandated pay increases, significantly increased the payroll base prior to the hiring freeze. An exception to the hiring freeze was granted to VBA's "Tiger Team," located at the Cleveland Regional Office. The Tiger Team concentrates on processing older claims throughout the system, and top priority is given to those claims from veterans over age 70 that have been pending for a year or more.

The Administration requests a decrease of 540 FTEE in total VBA staffing. The Committee is concerned that with decreased staffing, VBA would not be able to continue its improvements in disability claims processing, as well as improve its performance in other entitlement programs.

The Committee rejects the total proposed decrease of 540 FTEE across all business lines and recommends a total of $32 million to maintain current full staffing for the disability compensation, pen-

sion, education, vocational rehabilitation and employment and housing business lines of VBA.

NATIONAL CEMETERY ADMINISTRATION

The Administration requests $274.4 million in discretionary burial administration funding and $180.9 million in mandatory spending to provide burial benefits. The burial account includes operating and capital funding for the National Cemetery Administration (NCA), the burial benefits program administered by VBA, and the State Cemetery Grants Program. Specifically, the budget requests $161.3 million for NCA operation and maintenance of 125 national cemeteries and 33 soldiers' and sailors' lots, plots and monument sites in 2005 and $113 million for major construction, minor construction, and funding for the State Cemetery Grants Program. The budget requests $180.9 million in mandatory spending to provide burial benefits on behalf of eligible deceased veterans and eligible deceased dependents.

The budget request supports 1,611 FTEE in NCA, an increase of 23 over the fiscal year 2004 request, and 168 FTEE in VBA, a decrease of 6 FTEE over last year's request. The Committee supports these requests.

The Administration requests $113 million to develop new national cemeteries, expand and create additional gravesites at existing national cemeteries, and provide grants for state cemeteries. The funds would be used to develop and/or expand cemeteries in the following locations:

* Sacramento, California, phase one development of a new national cemetery;
* Florida National Cemetery at Bushnell, gravesite expansion and cemetery improvements;
* Rock Island, Illinois, gravesite expansion and cemetery improvements; and
* Ft. Snelling, Minnesota, gravesite expansion and cemetery improvements

NCA maintains almost 2.6 million gravesites in 39 states, the District of Columbia and Puerto Rico. Of the 125 national cemeteries, 60 have available, unassigned gravesites for burial of both casketed and cremated remains; 23 will only accept cremated remains and the remains of family members for interment in the same gravesite as a previously deceased family member; and 37 are closed to new interments, but may accommodate family members in the same gravesite as a previously deceased family member.

Occupied graves maintained by NCA are projected to increase from 2,574,489 in fiscal year 2003 to over 3,041,000 in 2009. NCA continues to develop new cemeteries in areas not presently served by NCA: Atlanta, Georgia; Detroit, Michigan; Miami, Florida; Pittsburgh, Pennsylvania; and Sacramento, California.

Pursuant to section 613 of Public Law 106–117, the Veterans Millennium Health Care and Benefits Act, VA awarded a contract to Logistics Management Institute (LMI) to conduct an assessment of the current and future burial needs of veterans. Volume 1 of the study, entitled "Future Burial Needs," identified areas of the country where new national cemeteries might be constructed. The LMI

study projected burial needs in 5-year increments to the year 2020 based on data derived from the 1990 census. In June 2003, VA updated the burial needs report to reflect the veterans' population from the 2000 census.

Based on the LMI rankings of the areas of the country most in need of a national cemetery burial option, Congress passed the National Cemetery Expansion Act of 2003, Public Law 108–109, signed on November 11, 2003. It requires the Secretary to establish six additional national cemeteries by 2008 in the following areas: Southeastern Pennsylvania; Birmingham, Alabama; Jacksonville, Florida; Bakersfield, California; Greenville/Columbia, South Carolina; and Sarasota, Florida. The budget requests $1 million in Advance Planning Funds and includes funds for the site selection process for the six new national cemeteries authorized by this law. The Committee supports this request.

Volume 2 of the LMI study, entitled "National Shrine Commitment," was a report on capital improvements needed at existing veterans' cemeteries. The budget request does not provide funding for 928 full-scale cemetery restoration and repair projects, estimated to cost $279 million, as determined by the LMI study. Instead, the budget reflects a shift in funding for projects to improve the appearance of cemetery assets, and requests $15 million for funding gravesite renovations and cemetery repair and infrastructure projects, to be accomplished through the Minor Construction program.

The Committee recommends a five-year, $300 million restoration and improvements project at existing cemeteries. The Committee recommends an additional first-year appropriation of $50 million for fiscal year 2005 to address this problem.

DEPARTMENT OF LABOR

VETERANS' EMPLOYMENT AND TRAINING SERVICE

The Veterans' Employment and Training Service (VETS) of the U.S. Department of Labor furnishes employment and training opportunities to veterans. The Assistant Secretary for VETS serves as the principal advisor to the Secretary of Labor on all policies and procedures affecting veterans. VETS also administers grants to States, public entities and non-profits, including faith-based organizations, to help veterans find jobs.

The Administration requests $220.6 million for all VETS programs, a $1.9 million increase over the appropriated level for fiscal year 2004; $162.4 million for State grants (Disabled Veterans' Outreach Program and the Local Veterans' Employment Representative program); $29.7 million for program administration activities; $2 million for the National Veterans' Employment and Training Services Institute; $19 million for the Homeless Veterans' Reintegration Program; and $7.5 million for the Veterans' Workforce Investment Program.

The Committee supports this request and expects states to continue to use the flexibility furnished in the Jobs for Veterans Act to determine the number and role of DVOPs and LVERs in their state service plans. The Committee desires states to use such flexibility to tailor services to meet veterans' needs.

LEGISLATION THE COMMITTEE MAY REPORT WITH DIRECT SPENDING IMPLICATIONS

The Committee intends to continue its emphasis on economic opportunity for those who have worn the military uniform. Committee legislative accomplishments to date include: The Veterans Entrepreneurship and Small Business Development Act of 1999 (Public Law 106–50), the Jobs for Veterans Act (Public Law 107–288), aspects of the Veterans Benefits Act of 2003 (Public Law 108–183), and the Veterans Education and Benefits Expansion Act of 2001 (Public Law 107–103), which provided a 46 percent increase in the Montgomery GI Bill over three years.

On-Job Training and Apprenticeship.—Congress has not comprehensively updated the on-job training (OJT) and apprenticeship programs under the Montgomery GI Bill (MGIB) and other VA educational assistance programs since World War II. Some apprenticeships in today's workplace can last as long as five years and most are competency-based. Title 38, United States Code, limits itself to time-based learning on the job. In addition, many technical and technology-based employers require that workers meet occupational licensing, certification, or other credentialing requirements that are an "outgrowth" of such training. Although different from apprenticeships, on-job training is still time-based and lasts up to two years.

About 65 percent of servicemembers are married and many have children at the time they separate from active duty. "Earning and learning" on the job under a structured, VA-approved OJT or apprenticeship program could serve as an excellent transition tool. The Department of Labor reported in 2003 that the average unemployment rate for recently separated male veterans ages 20 to 24 years was 11.5 percent, and 8.7 percent for similar female veterans. For 20–24 year old black male and female veterans, the 2003 unemployment rate was 21.9 and 13.9 percent, respectively. For 20–24 year old male and female Hispanic veterans, the 2003 unemployment rate was 8.7 percent and 21.4 percent, respectively.

The Subcommittee on Benefits held a public hearing on OJT and apprenticeship programs on April 30, 2003. Business, industry, and organized labor representatives testified that a modernized statute reflecting the nature of structured training in today's workplace would help improve participation of recently-separated veterans in VA's OJT and apprenticeship programs because employers likely would be more willing to participate.

The Committee may report legislation to modernize this program for business and industry. The Committee estimates the cost to be $187 million for fiscal year 2005, with a five-year cost of $769 million, and a 10-year cost of $1.782 billion.

ADDITIONAL VIEWS AND ESTIMATES

HONORABLE BOB FILNER

I am submitting the following additional views on the budget for FY2005 to the Committee on Veterans' Affairs.

For years, I have relied on The Independent Budget, a comprehensive budget and policy document created by veterans for veterans. Developed by four veterans service organizations, AMVETS, the Disabled American Veterans, the Paralyzed Veterans of America, and the Veterans of Foreign Wars of the United States, and endorsed by over thirty additional organizations, this budget is a collaborative effort to present recommendations on policy and the budget regarding veterans' programs administered by the Department of Veterans Affairs (VA).

For FY2005, the Independent Budget recommends $29.8 billion, an increase of $3.1 billion over the President's Budget Request for medical care and $33.5 billion, an increase of $3.9 billion over the President's Budget Request for VA discretionary funding.

The recommendations of the Independent Budget meet the needs of our veterans seeking health care and other services from the VA. We must realize that the costs of war include taking care of veterans returning with physical and mental wounds. We must respond to the growing number of older veterans who need long-term care. We must re-open enrollment for VA health care to all veterans.

To address these and other veterans' needs, I recommend that we follow the lead of the Independent Budget. I urge the Committee on the Budget to consider an additional $3.9 billion in budget authority for VA's discretionary programs.

HONORABLE CORRINE BROWN

Time and time again our veterans get the shaft. President Bush came out with a budget that short changes the middle class, children, seniors, and our veterans.

It is mind blowing to me that the Bush Administration is going to make the trillion dollar deficit they created even worse by keeping the tax cuts it gave to the wealthy. Americans deserve to have a President who looks out for the interests of the nation as a whole, not just for an elite few.

Adding to this deficit is the proposal to increase NASA's budget by $1 billion dollars. Although I support NASA, this funding will come at the expense of our Nation's veterans who are waiting for a simple appointment with the doctor. HUD has already been stripped to the bone and I am worried that VA is next. America made a commitment to care for those who answered our Nation's call to service, and we are not honoring that commitment. If we can come up with an additional $1 billion for NASA, then surely we can give VA the money that it needs to provide for our veterans.

We have given approximately $150 billion to the ongoing war in Iraq. We should be able to give VA enough money to take care of our soldiers when they return. The Bush Administration should be ashamed.

President Bush is cutting funding for veterans' medical care in 2005. CBO has stated that the amount the President is providing is $257 million below what is needed to MAINTAIN purchasing power at 2004 levels. The Secretary of Veterans Affairs has testified that he sought $1.2 billion more than what the President provided. The fiscal year 2005 budget is a perfect example of how the Bush Administration is failing to treat our veterans with the respect that they have earned.

I am very concerned that enrollment in the VA healthcare system continues to grow and of VA's inability to respond to veterans' needs once enrolled. Although VA is reporting that only 36,000 patients are waiting six months or more to see a VA physician, 2.4 million additional veterans are expected to enroll in VA healthcare for fiscal year 2005. Many of these veterans are not expected to use healthcare services, but the number is alarming.

VA is facing a decrease of $21 million below the fiscal year 2004 appropriation for medical and prosthetic research. I have been to Walter Reed and have seen the physical scars that have been left on our soldiers returning home from Afghanistan and Iraq. Many of the soldiers that I visited with are amputees. How can the Bush Administration decrease prosthetic research at a time when a new round of soldiers is returning home and could benefit from new technology? I would like to see VA receive additional funding for medical research coupled with an increase in medical care funds to support these activities.

We show potential and current members of the Armed Forces how America honors their sacrifice by how well we treat our veterans. This budget is not adequate to meet the needs of 25 million of our Nation's finest individuals. President Bush needs to start walking the walk if he is going to talk the talk. Wearing a flightsuit and landing on a carrier does not take care of the needs of former members of our Nation's military.

Comparison of FY 2005 Budget Proposals: VA Department – VA Committee – Independent Budget

(Dollars in Millions)

	Department of Veterans Affairs (VA) FY 2004 Final Approp.	**VA's FY 2005 Budget Request**	VA FY 2005 Request Compared to FY 2004 Final	**Committee on Veterans' Affairs (HCVA) FY 2005 Recommend**	HCVA FY 2005 Compared to Admin. FY 2005 Request	**Independent Budget (IB) FY 2005 Recommend**	IB FY 2005 Compared to Admin. FY 2005 Request
Medical Care[1]	$25,938	**$26,646**	$708	**$28,994**	$2,348	**$29,791**	$3,145
MCCF and HSIF Receipts	1,752	**2,419**	667	**1,927**	– 492	*No estimate*	.....
Medical and Prosthetic Research	406	**385**	– 21	**415**	30	**460**	75
MAMOE	79	**87**	8	**87**	0	**87**	0
VA Medical Construction, Major	614	**401**	– 213	**401**	0	**571**	170
VA Medical Construction, Minor	206	**182**	– 24	**182**	0	**545**	363
VA State Home Grants	101	**105**	4	**105**	0	**150**	45
VA State Cemetery Grants	32	**32**	0	**32**	0	**37**	5
General Operating Expenses	1,276	**1,325**	49	**1,375**	50	**1,618**	293
National Cemetery Administration	143	**149**	6	**199**	50	**175**	26
Inspector General	62	**65**	3	**65**	0	**62**	– 3
Other Discretionary	280	**277**	– 3	**323**	46	**100**	– 177
VA Discretionary (*Excluding MCCF and HSIF Receipts*)	29,137	**29,654**	517	**32,178**	2,524	**$33,596**	$3,942
Total VA Discretionary (*INCLUDING Receipts*)	30,889	**32,073**	1,184	**34,105**	2,032	.....	.....
VA Baseline Mandatory	31,166	**35,252**	4,086	**35,252**	0	*No estimate*	.....
Committee Legislative Proposal				**187**	187	*No estimate*	.....
Total VA Mandatory Spending	31,166	**35,252**	4,086	**35,439**	187	*No estimate*	.....
TOTAL VA BUDGET (Mandatory and Discretionary)	$62,055	**$67,325**	$5,270	**$69,544**	$2,219	.....	.....

[1] FY 2004 Medical Care number assumes transfer of $400 million from Medical Care to Major Medical Construction per P.L. 108–199.